
Modernize Medicaid

Prevention | Wellness | Responsibility



Value-Based Reform

Concept Summary

IDAHO GOVERNOR DIRK KEMPTHORNE

November 15, 2005

Proposed Modernization of Medicaid

- **Medicaid is a joint program to finance health care for the poor, people with disabilities and the elderly.**
- **The budget for Idaho's Medicaid program in 2005 was \$1.1 billion.**
- **It serves about 180,000 Idahoans.**

The State of Idaho, at the direction of Governor Dirk Kempthorne, proposes to modernize the Medicaid program with a greater focus on program quality. Idaho will achieve improved Medicaid quality and cost containment by simplifying Medicaid eligibility groups according to their identified health needs.

Idaho Medicaid proposes to restructure the program by creating three basic Medicaid eligibility categories based on health needs. Using needs, rather than complex federal requirements as the basis for eligibility, will have multiple positive effects on Medicaid operations. There will be specific objectives, policy goals, benefits, delivery systems, and quality measures for each Medicaid population group.



The request for authority for the State of Idaho to transform its Medicaid program will take the form of a statewide demonstration project.

This level of authority will enable Idaho to develop separate Medicaid programs for defined populations based on their health needs.

If granted this authority by the federal government, Idaho believes it can deliver better quality services, improve the health of participants, and hold down the rapid growth in the cost of the Idaho Medicaid system.

Forces Driving Change

Medicaid is a program that pays for medical assistance for certain children and families with low incomes, individuals with disabilities, and the elderly. The program became law in 1965. It is jointly funded by the federal and state governments to assist states in providing medical acute and long-term care assistance to people who meet certain eligibility criteria. Medicaid is the largest source of funding for medical and health-related services for people with limited income.

Idaho's Medicaid program, as a medical safety net and key component of Idaho's health system, has grown with enrollment and cost increases since the program's inception. Today, Idaho Medicaid finances health care for approximately 180,000 Idahoans and is vital to the health of Idaho citizens, the state's health system, and to the state economy.

Due to Medicaid's growth and other health system changes, however, Idaho must work proactively to ensure that the state can continue to meet its legal obligation to administer Medicaid and to protect the health of Idaho's most vulnerable citizens.

This paper describes a framework for modernizing Idaho's Medicaid program. Certain conclusions have been made based on past experience with the Medicaid program:

■ **Medicaid is unsustainable in its existing form.**

Medicaid is growing rapidly as a percentage of state budgets, not just Idaho's. The National Association of State Budget Officers noted in 2004 that "even after a full economic recovery is under way, increases in Medicaid costs will far outstrip the growth in state revenues into the future."

The average annual growth of Medicaid expenditures in Idaho from 1987 to 2005 was nearly 18 percent. Idaho has limited ability to address this escalating trend due to federally required eligibility categories and benefits, and other constraints on Idaho's ability to proactively manage Medicaid costs.

■ **Access, quality, and cost containment must be balanced.**

Effective care and fiscal sustainability are linked. It is tempting to cut costs by reducing access and bypassing quality improvement efforts, but reforms focused solely on cost containment often lead to even higher Medicaid costs in the long run. The National Conference of State Legislatures explains, "Deferred or denied services can result in higher treatment costs in the future." Reforms focused on effective and efficient care, combined with thoughtful policy, can reduce program costs in the long run.

■ **Medicaid operates within an interconnected state health system.**

Idaho will make improvements to Medicaid based on its role in an interconnected statewide health system. The National Conference of State Legislatures cautions that "Medicaid budget decisions can affect insurance premiums and reimbursement rates for the entire state." In turn, increases in private health insurance premiums tend to reduce enrollment in employer-sponsored coverage, which can lead to increased enrollment in Medicaid.

■ **Meaningful improvements exist largely outside traditional program parameters.**

Much of Medicaid's design is based on a decades-old health financing and delivery landscape, making it difficult for the state to manage. To increase program quality and sustainability, Idaho must introduce reforms that impact payer, patient, and provider behavior outside traditional Medicaid boundaries.

Throughout this modernization effort, Idaho will use a set of "filters" to guide its decision-making:

■ **Is the change holistic?**

Idaho must institute reforms that take a long-term view and design programs that account for multiple health system components. Medicaid reforms must avoid negative impacts to the private health care sector. Medicaid reforms should foster improvements in the overall health care system.

■ **Does the change foster simplicity?**

Simplicity will assist Idaho in linking policy goals, program operations, and outcomes. Complexity often leads to confusion and waste. The focus should be on outcomes rather than rules.

■ Does the change promote fairness?

Idaho must make sure that eligible populations with similar resources are treated equitably in terms of cost-sharing. Medicaid must encourage personal responsibility and avoid giving “handouts” that do not require responsible consumption of resources. At the same time, Idaho wants to ensure that vulnerable populations are protected adequately, and that cost-sharing is not a deterrent to needed health care.

■ Does the change create value?

Idaho will strive to make Medicaid policy decisions that lead to high-quality programs and positive outcomes. Idaho must invest the tax dollars that fund Idaho Medicaid as efficiently as possible to achieve desired health outcomes for participants, a productive workforce, and independence for populations with disabilities or special health needs.

I. Existing Idaho Medicaid Program

Idaho Medicaid has what might be described as a program administration focus rather than an outcomes focus. Due largely to complex eligibility and federal requirements for benefit design, state-level management has been reactive and compliance-based rather than proactive toward outcomes.

Because of the need to comply with federal requirements for benefits, Medicaid has created programs based on rules rather than health needs. Eligibility categories do little to describe the health needs of populations they represent. This eligibility structure results in efforts to control costs by reducing program eligibility without regard to health needs.

Existing rules require compliance with a “one size fits all” model.

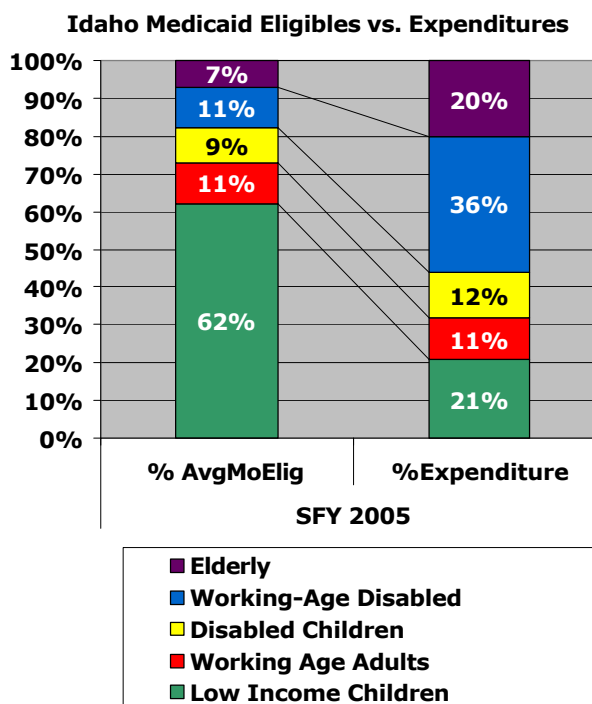
Clearly, different Medicaid populations have different needs, and the set of federally mandated benefits represent a somewhat arbitrary response to those needs.

The differences in expenditures for certain groups of eligibility categories are illustrated in Exhibit 1. There is generally one set of benefits for all Medicaid eligibility groups, even though all benefits may not be useful to a particular population, such as low-income children.

This graph shows that 62 percent of Medicaid’s participants are low-income children. They account for only 21 percent of total expenditures. This group has the same mandatory basic benefits package as the working-age disabled.

The disabled population accounts for 20 percent of the Medicaid enrollment, but accounts for 48 percent of costs.

If Idaho Medicaid had more flexibility in the design of benefits, it could create a system that helps keep children healthy and provides needed resources for the disabled.



The result is a short-term, budget-driven Medicaid program. It limits Idaho's ability to manage the program toward outcomes.

II. Approach to Modernization

The State of Idaho proposes to modernize the Medicaid program with a focus on quality. Idaho will improve quality by simplifying Medicaid populations according to their health needs. Eligibility categories will be based on health needs.

Idaho Medicaid must reduce the management constraints imposed by federal rules and expand its traditional operational focus on compliance with those rules to include a focus on desired health outcomes for different populations.

This approach to modernization will result in improved clinical and financial effectiveness and greater program sustainability. To effect this modernization, Idaho Medicaid proposes to alter eligibility, benefits, and care delivery in several key ways:

■ Simplify eligibility to match identified needs.

Idaho Medicaid will be more effective in meeting the needs of its enrollees if it structures program eligibility around those needs. Idaho should drastically simplify federal eligibility rules to reflect basic criteria, such as enrollee life stage and health status.

If Idaho changes eligibility in this way, it also can ensure that Medicaid programs will connect needs, eligibility, benefits, and desirable outcomes. It also can ensure elimination of inequities and perverse incentives caused by arbitrary categories. For example, this will eliminate unequal work incentives for certain categories of adults with disabilities.

■ Establish policy goals relevant to specific populations.

For each new eligibility population, Idaho Medicaid will determine specific policy goals that will describe desired health outcomes and will drive benefit design, quality indicators, and the way in which Medicaid and provider partners deliver services. Policy goals will recognize the needs of eligibility groups and the need to responsibly steward Medicaid resources.

For example, a policy goal for elders will provide guidance on issues such as the need to support informal caregivers, which is important not only as a preferred mode of care delivery for beneficiaries, but also because it can prevent the need for Medicaid to pay for costly long-term care.

■ Modify benefits to meet identified needs and promote policy goals.

Idaho Medicaid can improve clinical and financial efficacy by altering federal benefit requirements and structure. Idaho Medicaid will design benefit packages based on needs of beneficiaries, policy goals for identified populations, and up-to-date clinical best practice.

For example, benefits for healthy children will focus on prevention and wellness, which is in the best interests of healthy child enrollees, and also the best way to spend scarce Medicaid resources.

■ Alter delivery systems to efficiently and effectively meet needs and program goals.

Idaho Medicaid also can improve clinical and financial efficacy by incorporating modern health delivery and benefit-management techniques from other components of the health system. The private sector provides many examples of tools that can improve Medicaid's performance and help Medicaid stretch its resources.

These will include network management, certain types of cost-sharing, premium assistance, and flexible spending accounts. Other non-Medicaid public systems also have resources that Medicaid should leverage or learn from, such as the public health system's successful immunization program.

■ **Match quality and performance improvement to populations served.**

Finally, a vital component of Idaho's approach to Medicaid modernization is more robust quality measurement and performance improvement. Improved analysis is essential to improved performance.

Medicaid must first create meaningful quality measures that reflect the needs of Medicaid populations, and then track its performance against established policy goals.

III. Proposed Modernization

Forming eligibility groups to meet needs will help develop each additional modernization objective, population-specific policy goals, benefits, delivery systems, and quality measures.

Idaho's proposed statewide demonstration project will dramatically change the contract relationship between the state and federal governments. This level of authority will enable Idaho to develop a separate Medicaid program for each defined population, as well as to make multiple changes within each new program.

In the near-term, Idaho Medicaid proposes to form three distinct populations of eligible individuals:

- 1) Low-Income Children and Working-Age Adults;**
- 2) Individuals with Disabilities or Special Health Needs; and**
- 3) Elders.**

To ensure that Medicaid benefits will lead to desired health outcomes, Idaho Medicaid will incorporate a health risk assessment into Idaho's primary care case management program, Healthy Connections.

The health risk assessment will consider each new beneficiary's health needs. If the health risk assessment reveals that a participant has special needs, the beneficiary will be placed in the appropriate program to adequately meet their needs. The health risk assessment will act as both a component of eligibility determination and as a safeguard to ensure that benefits address beneficiary health needs.

Idaho Medicaid will develop each eligibility group to help implement the reform approaches. Each program will include a state plan with policy goals for the covered populations, as well as specific benefit packages, delivery system components, and performance measures.

Idaho's approach to Medicaid reform will ensure that there is value in all public expenditures for medical assistance on behalf of Idaho's citizens. This approach will provide a meaningful framework for cost containment.

Management and Efficiencies

Efforts will be made to gain efficiencies throughout services to the entire Medicaid population. These will include pay-for-performance, selective contracting with vendors to obtain better prices for services, goods, and equipment, and greater use of health information technology. Here are some tools Medicaid will use:

1. Managed Care Contracting

Idaho Medicaid will achieve savings by consolidating purchases of equipment, certain supplies, and services. Improved network management will be done by contracting with a selected vendor or vendors to increase purchasing power. Durable medical equipment (DME) and supplies, as well as transportation, will be provided by fewer vendors, rather than the dozens of companies, thereby providing broad purchasing power that can save money, time, and improve quality. Dental services also will be included under managed care contracting. Existing federal law restricts Idaho Medicaid from this type of contracting. Idaho proposes to waive this limitation to better manage Medicaid costs.

2. Pay for Performance (P4P)

Idaho Medicaid proposes to restructure health care provider payments to offer incentives for preventive care, key outcomes and chronic disease management. Offering incentives will bring about an increased focus on the client. Participants will benefit with higher quality care. For example, incentives might be paid to health care providers to make sure immunizations and well-child checks are performed regularly. In turn, Medicaid will see better and more appropriate use of services, which means future cost avoidance.

3. Improving Health Information Technology

Idaho Medicaid will expand the use of new technologies:

- **Personal health records to promote prevention and wellness;**
- **Electronic health records to increase provider efficiencies and quality of care;**
- **Technology to improve chronic disease management; disease registries and software to improve chronic disease management;**
- **New technology to improve the safety of prescription drug dispensing with better controls to prevent overuse and misuse; and**
- **Better use of technology to enhance delivery of long-term care.**

The demonstration project will meet federal requirements that it be budget neutral. It will not cost more than the cost of the existing state Medicaid plan.

IV. State Plan for Low-Income Children and Working-Age Adults

Population

The State Plan for Low-Income Children and Working-Age Adults will be modeled after the State Child Health Plan and will utilize both Title XIX (19) and Title XXI (21) funds. This plan will provide much of the flexibility given to states under the State Children's Health Insurance Program (CHIP).

This plan also will incorporate many features of Idaho's Health Insurance Flexibility and Accountability (HIFA) waiver that permitted expansion of covered populations to reduce the number of uninsured Idahoans in Idaho. Performance measures will be included to help Medicaid meet its policy goals.

Eligibility groups covered by these programs include pregnant women, children with family income up to 185 percent of poverty, and a limited number of adults with family income up to 185 percent of poverty and who work for small businesses.

Policy Goals

These populations are of average health and do not include participants with special needs. The broad policy goal for this state plan is: **To achieve and maintain wellness by emphasizing prevention and proactively managing health.**

Goal 1. Emphasize Preventive Care and Wellness

Benefits for populations in this state plan will place particular emphasis on prevention and wellness. Idaho will implement personal health accounts to encourage healthy behaviors. Medicaid enrollees will have the freedom to purchase goods and services to facilitate active and healthy lifestyles. Idaho Medicaid's increased focus on prevention will result in better health outcomes and cost savings.

Idaho Medicaid has an opportunity to promote wellness and prevention for children in this state plan in non-clinical settings. In schools, Medicaid proposes to support physical education activity and nutrition services. This aligns Medicaid's focus on preventive care with Governor Kempthorne's Initiative on Physical Fitness and Nutrition. Idaho also has an opportunity to deliver basic preventive health measures for Medicaid-eligible children in participating day cares.

Idaho Medicaid proposes to restructure provider payments to offer incentives for delivery of key prevention services. This will include immunizations and well-child checks, among others.



Goal 2. Increased Participant Ability to Make Good Health Choices

Idaho Medicaid will implement common-sense, enforceable cost-sharing to increase the responsibility of Medicaid beneficiaries for the cost of their health care and to encourage cost-effective care in the most appropriate setting. Cost-sharing may include establishing co-payments for certain services, such as inappropriate emergency room utilization, inappropriate emergency transportation, non-preferred prescription drugs, and missed appointments with health care providers.

Cost-sharing also will include monthly premium payments for participants with family incomes above 133 percent of the federal poverty guideline. Cost-sharing will be implemented cautiously, due to the potential danger of introducing barriers to essential care and access to health care coverage. Individuals also may use personal health accounts to cover any cost-sharing requirements.

Goal 3. Strengthen the Employer-Based Health Insurance System

Although Idaho Medicaid provides an option for premium assistance to CHIP-eligible children and as a stand-alone program for certain working adults, Idaho is limited in its ability to expand this option to other populations. For example, Idaho is prohibited from offering premium assistance as an option to children and adults in mandatory eligibility categories. Idaho Medicaid proposes to expand the option for premium assistance to all children and working-age adults who would prefer to enroll in commercial insurance over Medicaid.

Children of families who apply for premium assistance programs like the Children's Access Card must not have existing health insurance to qualify for the Access Card. This creates an incentive to drop existing health insurance. Instead, Idaho Medicaid proposes to remove the requirement so that a family can retain existing insurance and obtain additional assistance.

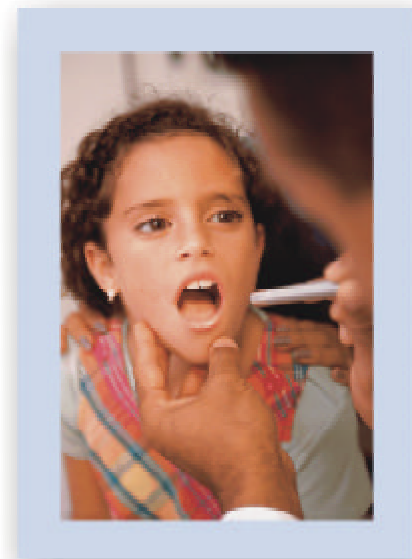
Idaho proposes to eliminate the asset test. The benefits of eliminating asset testing outweigh the benefits of keeping the test. Idaho will be among the last states to eliminate this eligibility criteria. Evidence suggests that asset testing actually increases program administrative costs, presents barriers that keep qualified individuals from applying for assistance, and fails to promote saving and personal responsibility.

Benefit Design

Idaho Medicaid will modernize benefits for the low-income children and working-age adult population to more closely mirror private insurance. This will help ensure better management of expenditures and keep a focus on preventive care.

Benefits include:

- Inpatient Hospital;
- Outpatient Hospital;
- Ambulatory Surgical Centers;
- Physician Services;
- Primary Care Case Management **enhanced;**
- Preventive Screening Services **enhanced;**
- Personal Health Accounts **new;**
- School-based Prevention Services **new;**
- Laboratory/Radiology Services;
- Prescribed Drugs;
- Mental Health Counseling;
- Vision Services and Glasses;
- Preventive Dental;
- Select Medical Equipment;
- Physical Therapy;
- Speech Therapy;
- Audiology Services; and
- Medical Transportation.



V. State Plan for Individuals with Disabilities or Special Health Needs

Population

The State Plan for Individuals with Disabilities or Special Health Needs will mirror the existing Medicaid program under Title XIX. No benefit changes are planned for these populations. The state plan for this population will include the existing Medicaid benefit package, but will reform service delivery systems to better meet needs. All individuals with disabilities, regardless of age, may elect to be covered under this plan.

Policy Goals

All individuals covered have needs that can be met only with specialized supports. The broad policy goal for this state plan is: **To finance and deliver cost-effective individualized care.**

Goal 1. Empower Individuals with Disabilities to Manage Their Own Lives

This state plan will incorporate community supports modeled after the National Cash and Counseling Demonstration. The new service option, self-determination, will enable individuals to have greater freedom to manage their own care. Idaho is committed to transforming its mental health system by addressing aspects of each of the six over-arching goals from the President's New Freedom Commission on Mental Health. Benefits for addressing mental health needs will be transformed to provide for increased opportunities for recovery and prevention of deterioration.

Goal 2. Provide Opportunities for Employment for Person with Disabilities

Idaho Medicaid proposes to increase Medicaid coverage for working individuals with disabilities. This reform will be assisted by creating three new Disability Resource Centers, piloted by the Idaho Department of Health and Welfare in collaboration with the Idaho Division of Vocational Rehabilitation. These centers will provide enhanced information and counseling about work incentives available to workers with disabilities.

Benefit Design

The state plan for this population will include the existing Medicaid benefit package. Benefits for this population include:

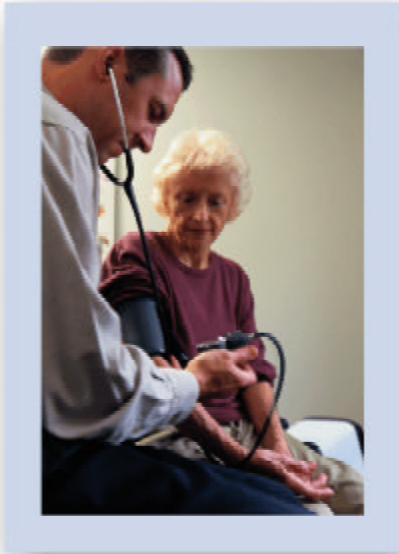
- Inpatient Hospital;
- Outpatient Hospital;
- Ambulatory Surgical Centers;
- Physician Services;
- Primary Care Case Management **enhanced**;
- Prevention Screening Services **enhanced**;
- Laboratory/Radiology Services;
- Prescribed Drugs;
- Mental Health Rehabilitation;
- Mental Health Facility;
- Vision Services and Glasses;
- Dental;
- Durable Medical Equipment;
- Physical Therapy;
- Occupational Therapy;
- Speech Therapy;
- Audiology Services and Hearing Aids;
- Medical Transportation;
- Hospice Care;
- Nursing Facilities;
- Intermediate Care Facilities;
- Developmental Therapy;
- Residential Habilitation;
- Personal Care and Home Health Services;
- Home- and Community-Based Services;
- Community Support Services **new**; and
- Targeted Case Management.



VI. State Plan for Elders

Population

These participants are 65 or older and covered by Medicare. All individuals eligible for Medicaid and Medicare (dual-eligibles), regardless of age, can receive services under this plan. Individuals age 65 and older with disabilities also may elect to be covered under the state plan for individuals with disabilities or special health needs.



Policy Goals

Participants in this state plan have needs that must be met through specialized supports. The broad policy goal for this state plan is: **To finance and deliver cost-effective individualized care which is integrated, to the greatest extent possible, with Medicare coverage.**

Goal 1. Improve Coordination Between Medicaid and Medicare Coverage

There are several areas where we will work to coordinate coverage between the state and Medicare. For example, Medicaid will contract with a vendor or vendors to provide certain prescription drugs for “dual eligible” participants (those who are eligible for Medicare and Medicaid). The new Medicare Prescription Drug Program (PDP) will cover most drugs, but not all. Medicaid is responsible for a small number of prescription drugs for this participant group. Medicaid proposes that an existing Medicare prescription drug plan also provide those specific drugs that must be provided by Medicaid. Transportation to Medicare-participating pharmacies to pick up prescription drugs will be added as a benefit.

Goal 2. Increase Non-Public Financing Options for Long-Term Care

Long-Term Care (LTC) options counseling will promote non-publicly financed LTC arrangements such as reverse mortgages and commercial insurance. Reverse mortgages are an important tool to assist states in avoiding the need for estate recovery. The Idaho Department of Health and Welfare and several agency partners will pilot Aging Resource Centers in three Idaho communities. These centers will provide a central source of information for seniors and serve as critical information and referral sites for end-of-life care issues, including advanced directives.

Idaho Medicaid will strengthen Medicaid LTC financing by participating in the Long-Term Care Partnership program. These partnerships provide an incentive to individuals to purchase long-term care insurance, allowing them to protect a portion of their assets.

Idaho Medicaid will implement restrictions on transfer of assets as a way to make an individual eligible for Medicaid long-term care by:

- **Increasing the look-back period from three years to five years (or longer); and**
- **Limiting the amount and types of funds that can be sheltered in an annuity, trust, or promissory note.**

Estate recovery is an important long-term care (LTC) financing tool that provides resources to help Medicaid continue to provide LTC services. Estate recovery is a method to repay costs of care of Medicaid participants after the death of the participant and their spouse. Medicaid works through the courts to obtain only the necessary money from the estate to repay costs. Idaho Medicaid will implement specific changes to enhance recovery of Medicaid costs through changes, including:

- **Foreclosing Medicaid liens directly, rather than going through probate;**
- **Obtaining financial records of deceased Medicaid recipients; and**
- **Preventing certain property allowance payments from being made before a Medicaid claim has been satisfied.**

Goal 3. Ensure Participants' Dignity and Quality of Life

An important part of long-term care is the Governor's initiative on Long-Term Living. One of the key components is the Home- and Community-Based Services (HCBS) waiver. HCBS is an optional benefit and a less expensive alternative to nursing home care. HCBS provides non-institutional care, usually in the home, where participants are more comfortable.

Not only do participants prefer HCBS to institutional care, it has the additional benefit of being less costly than institutional care. In fact, since the waiver went into effect, nursing home expenses have shown little or no growth. Idaho Medicaid will expand respite care to adults with disabilities and other special needs who are at risk for nursing home levels of care. This will allow Idaho Medicaid to support family caregivers, ensure delivery of non-institutional care, and avoid costs of premature institutional care.

Idaho Medicaid will build on Medicare Compare, a CMS web site, for nursing facilities and home health agencies to include quality of care information for all Medicaid-financed Long-Term Care, including that provided through Home- and Community-Based Services.

In addition, participant assessments will use common language and measures in electronic health records. Electronic health records will create an integrated health system that will assist providers in improving care.

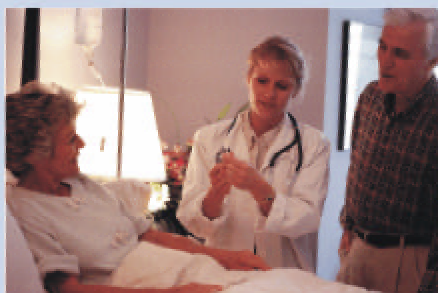
Benefit Design

Benefit design for this population include Medicare deductibles and cost-sharing for:

- **Inpatient Hospital;**
- **Outpatient Hospital;**
- **Physician Services;**
- **Ambulatory Surgical Centers;**
- **Laboratory/Radiology Services;**
- **Prevention Screening Service **enhanced**;**
- **Durable Medical Equipment;**
- **Mental Health;**
- **Long-Term Care;**
- **Home Health Services; and**
- **Hospice Care.**

Additional benefits for the Medicaid Elder Plan include:

- **Medicare-excluded Prescribed Drugs;**
- **Vision Services and Glasses;**
- **Dental;**
- **Durable Medical Equipment;**
- **Audiology Services and Hearing Aids;**
- **Medical Transportation **enhanced**;**
- **Long-Term Care Options Counseling **new**;**



- **Nursing Facilities;**
- **Intermediate Care Facilities;**
- **Developmental Therapy;**
- **Residential Habilitation;**
- **Personal Care and Home Health Services;**
- **Home- and Community-Based Services **enhanced**; and**
- **Targeted Case Management.**

VII. Summary and Conclusion

This concept paper presents solid, supportable reforms that will increase Idaho Medicaid's ability to meet health care needs of program participants, improve quality and delivery of care, and hold down the growth of spending. These reforms are not designed to reduce needed services or limit enrollment, but to slow growth by using limited resources wisely and investing carefully in targeted services that achieve long-term savings.

This report recognizes Medicaid's critical role as health payer for thousands of Idahoans with low incomes and/or special health needs. It also recognizes that the existing Medicaid system is not sustainable without major changes.

These reforms are based on new state plans that will group populations according to:

- **Health need;**
- **Specific goals;**
- **Benefits;**
- **Service delivery systems; and**
- **Performance measures.**

Reforms depend on approval by the federal government, statute and rule changes at the state level, and stakeholder and general public support. The reforms provide flexibility and a timetable that promotes urgency, but allows time for changes to be made thoughtfully, and with public input.

The Department of Health and Welfare and Idaho Medicaid will actively engage our participants, providers, taxpayers, legislators, and other stakeholders throughout implementation of this modernization plan to ensure the success of Idaho's value-based reforms.

